

VZCZCXRO5442
RR RUEHRG
DE RUEHBR #1406/01 3010951
ZNR UUUUU ZZH
R 270951Z OCT 08
FM AMEMBASSY BRASILIA
TO RUEHC/SECSTATE WASHDC 2732
INFO RUEHRG/AMCONSUL RECIFE 8625
RUEHRI/AMCONSUL RIO DE JANEIRO 6792
RUEHSO/AMCONSUL SAO PAULO 2965

UNCLAS SECTION 01 OF 04 BRASILIA 001406

SIPDIS

DEPARTMENT FOR OES/STC AND WHA/BSC

E.O. 12958: N/A

TAGS: [KSCA](#) [SENV](#) [ENRG](#) [BR](#)

SUBJECT: BRAZIL: SCENESETTER FOR USDEL TO PREP MEETING FOR THE JOINT COMMISSION ON SCIENCE AND TECHNOLOGY, OCT. 30-31

¶1. SUMMARY: The overall relationship between the United States and Brazil is as productive and broad-based as it has ever been, with an excellent relationship between President Bush and President Luiz Inacio Lula da Silva. A variety of cooperative mechanisms have been created or revitalized in recent years, including the Joint Commission Meeting (JCM) on Science and Technology (which met for the first time in July 2006 in Washington), the CEO Forum (which focuses on private sector concerns), the Economic Partnership Dialogue, the Biofuels Memorandum of Understanding (MOU), and the Common Agenda for the Environment. Brazil and the United States share the goals of fostering hemispheric stability, promoting democracy, developing a consensus on next steps regarding climate change, achieving a mutually satisfactory conclusion to the Doha round of WTO negotiations in the near-term, and supporting their science and technology (S&T) communities. The bilateral S&T relationship has been expanding and maturing, moving out from a solid base of cooperation in agriculture, health, basic sciences, and earth sciences. Most notably, there has been substantial progress in collaboration on next generation of biofuels research. END SUMMARY.

¶2. The U.S. delegation's participation in the October 30-31 preparatory, technical-level meeting in Brasilia of the Joint Commission (JCM) on Science and Technology (S&T) is an opportunity to help shape the direction and pace of U.S.-Brazil S&T cooperation. There is potential to build on well-established S&T cooperative areas (such as in agriculture and health), to develop new fields (such as in biofuels), and to revive previously more active areas (such as in remote sensing, biodiversity and climate change). Our bilateral relationship has been strong in recent years and Brazilians are acutely aware of the upcoming change of administrations and want to know what it means for them. Although the S&T sphere tends to be less buffeted by political winds than others, Brazilian counterparts are likely to be keenly interested in learning what will be the impact of cooperation with a new administration. We expect that a significant portion of the meeting will revolve around discussion of the transition.

SCIENCE AND TECHNOLOGY IN BRAZIL

¶3. The Ministry of Science and Technology (MCT) and its agencies, such as the National Institute for Space Research (INPE) and the National Council on Scientific and Technological Development (CNPq), play leading roles in developing S&T policy and funding research. MCT Minister Sergio Rezende, a graduate of MIT, has sought to increase S&T funding and is receptive to cooperation with the USG. Moreover, some key research areas are outside of the purview of MCT, including: agricultural research, which the Ministry of Agriculture (MAPA) conducts through its research arm (EMBRAPA), and the health research, which the Ministry of Health oversees through laboratories, such as FIOCRUZ. In addition, federal universities, state and private universities, and the private sector (such as Petrobras, Embraer and Dedini) are home to some world class scientists and laboratories.

¶4. In November of 2007, Brazil launched its National Science and

Technology Plan. The Plan covers the period 2008 to 2010 and calls for record funding of approximately Reais 22.8 billion (around USD 10 billion). The Plan holds four general priorities: (1) expansion and consolidation of the Brazilian National Science and Technology system; (2) promotion of technological innovation in the private sector; (3) research and development in strategic areas; and (4) science and technology for social development.

¶5. In August 2008, MCT working with the CNPq, the graduate level education support agency (CAPES), and with state-level research institutes launched a plan to create a "Network of National Institutes of Science and Technology". This involves providing over the next two years Reais 435 million (or about USD 200 million) to about 60 existing institutes to do research in strategic areas: biotechnology, biodiversity and climate change, nanotechnology, information technology, health, agriculture, nuclear, space and Antarctic, and defense and public security.

¶6. The Ministry of External Relations (MRE) is involved in international S&T cooperation. MRE recently created a new Under Secretary position responsible for S&T, as well as energy, which is filled by Amb. Andre Amado. The MRE has had a special focus on promoting south-south relations in Brazil's foreign policy, including in the S&T area. The MRE also recognizes the value of Brazilian scientists and laboratories working with U.S. counterparts and the MRE has been supportive of developing collaborative research projects, in such areas as biofuels and health.

BILATERAL SCIENCE AND TECHNOLOGY RELATIONSHIP

¶7. There is an overarching U.S.-Brazil S&T Framework Agreement dating back to 1984, which provides a legal framework for

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cooperation highlighted by the JCM on S&T. In addition, there are numerous MOUs and other arrangements between USG agencies and Brazilian ones. Unfortunately, delays have arisen because the MRE will decide that it needs to send an agreement to Congress for approval, which can take years to obtain, or the MRE moves slowly or not at all on proposals. For example, the NASA agreement on the Large-scale Biosphere-Atmosphere (LBA) program, which was signed in 2006, has not yet been transmitted to the Brazilian Congress for approval.

¶8. The U.S.-Brazil bilateral S&T relationship has a long and positive history, involving a wide swath of USG technical agencies. In the last ten years, some of the most important S&T activities involved:

- agriculture research (U.S. Department of Agriculture's Agriculture Research Service and the Brazilian counterpart EMBRAPA through the LABEX program);
- health research (the National Institutes of Health with Brazilian health researchers);
- earth sciences (the U.S. Geological Survey and Brazilian counterparts);
- remote sensing and the environment (NASA, NOAA, the Smithsonian Institution working with INPE and other Brazilian counterparts); and
- basic science (the National Science Foundation and CNPq).

¶9. With the signing of the bilateral Biofuels MOU in March 2007, Brazil and the United States have been vigorously pursuing collaborative research on the next-generation of biofuels. Scientists from both countries have made exchange visits, the most recent in Brazil during the month of June. The scientists have presented a joint work plan and proposals for cooperation are now moving from the drawing board into the implementation stage. Apart from biofuels, both sides of signaled an interest are looking at possibilities of other types of collaborative energy research, such as with clean coal, energy efficiency, and renewable energy. Petrobras' research laboratory CENPES and the Energy Department's

National Renewable Energy Laboratory (NREL) have recently signed an MOU to cooperate on next generation biofuels research. The NREL-CENPES MOU will be announced at the November 17 - 21 International Biofuels Conference being held in Sao Paulo.

BACKGROUND - FINANCIAL CRISIS

¶10. In response to the financial crisis, Brazil's Central Bank has responded appropriately in selling reserves, offering derivatives, and deferring higher bank reserve requirements in hopes of freeing up credit. Also, it has indicated that future interest rate hikes are unlikely given the diminishing threat of inflation due to a global slowdown and falling commodity prices. Brazilian officials acknowledge the effects of the global slowdown but confirm the country is well-placed to weather the crisis. President Lula has criticized the United States for a lack of financial regulation, claiming that a global regulatory body is needed to address the situation. Although Brazilian markets have taken a beating in recent weeks and the Real has seen an erosion of its strength from earlier this year, large Brazilian companies are confident that they will weather the storm, though there are worries about the effect of a tightened credit market for smaller enterprises. President Lula has spoken to President Bush several times in relation to the crisis and has confirmed his participation in the November 15 summit in Washington.

BACKGROUND - POLITICAL AND FOREIGN POLICY

¶11. Brazil's democratic institutions are generally strong and stable. President Lula remains a personally popular president as a result of his orthodox economic policies and expanded social programs. Ongoing scandals involving the leadership of the legislature and almost every Minister have led to low ratings for these institutions among the Brazilian public but have not touched Lula.

¶12. The United States and Brazil share the basic goals of fostering hemispheric stability, promoting democracy, preventing terrorist and drug transit activity and supporting international non-proliferation regimes. We have been working to try to achieve a conclusion to the Doha round of WTO negotiations. The attainment of a permanent seat on the United Nations Security Council has been a key goal of Brazil's foreign policy under President Lula's government. Regionally, Lula has maintained Brazil's historic focus on stability, seeing dialogue and good relations with all parties as the best way to achieve this goal. As a result, Brazil maintains an

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active dialogue with Venezuela and Cuba, has worked hard to restore relations with Bolivia, and has stood firmly on the principle of respect for sovereignty in responding to the dispute between Colombia and Ecuador, preferring to work through the Organization of American States.

¶13. The Brazilian public has a mixed view of the United States. Seventy-five percent say relations between Brazil and the U.S. are very good or fairly good, and Brazilians by a wide margin consider the United States the most important country in the region for Brazil. Those who follow the news know that U.S.-Brazil cooperation on trade issues has global importance and new areas of cooperation such as biofuels are potentially significant. There has been a much more positive view of U.S.-Brazil cooperation since the signing of the biofuels MOU last year. On the other hand, there is a good deal of skepticism about U.S. foreign policy, particularly on issues such as Iraq and Cuba. There is resentment over the long wait times for U.S. visa applications, a product of a spike in demand without commensurate increases in staffing.

BACKGROUND - ECONOMIC SITUATION

¶14. Brazil is now the tenth largest economy in the world, with a trade surplus and investment grade credit rating from S&P and Fitch this year. Annual GDP growth was 5.4% for 2007, and inflation about 4%. Prior to the financial crisis, foreign direct investment in Brazil had been increasing, with net flow of USD 34.6 billion in 2007 (versus USD 18.8 billion in 2006). Of total gross inflow of

USD 34.3 billion in 2007, USD 6.1 billion came from the United States. Brazilian investment in the United States has almost tripled between 2001 (USD 1.4 billion) and 2006 (USD 3.9 billion).

¶15. However, there are major structural challenges to Brazil's long-term growth. Real interest rates are the highest in the world at over 7 percent. The informal sector constitutes an estimated 40 percent of the economy, in part due to the tax burden (36 percent of GDP in 2007), one of the highest among large developing economies. Growth-limiting distortions in the economy, a burdensome tax and fiscal structure, and onerous labor and business regulations continue to constrain growth.

¶16. Despite significant progress toward stabilizing the economy, Brazil remains unequal in income distribution, with 10 percent of the population making up over 50 percent of the nation's wealth. Brazil is home to 50 percent of the people who live in extreme poverty in Latin America. President Lula in his first term launched social programs, which combined with formal sector job growth and real increases in the minimum wage, have markedly reduced income inequalities since 2004. Energy, transportation and sanitation/housing are the three key pillars of Lula's Growth Acceleration Program (PAC) to enhance infrastructure investment in Brazil.

¶17. The discovery of massive offshore reserves of oil and gas estimated to contain between 30-80 billion barrels of oil could put Brazil within the top ten oil countries by reserves. The reserves are located in the Santos Basin off the coast of Sao Paulo. Though the possibilities have generated a great deal of excitement, industry observers caution that the technological challenges involved are extensive, including a lack of equipment such as drilling rigs for deposits of this depth. Such challenges mean that developments will probably be slow in coming. Brazil will look to the United States and other partners for assistance in the exploration and production of these new reserves. Some have questioned whether the financial crisis will mean a slowing of exploration as financing for the necessary infrastructure investment becomes more difficult, but government statements so far dismiss that concern.

ENVIRONMENT, DEFORESTATION AND CLIMATE CHANGE

¶18. Tropical forests with bountiful biodiversity cover more than half of Brazil. Unfortunately, high rates of deforestation have resulted in the clearing of nearly 20% of the Amazon forest. With 70% of the Amazon forest within its territory, Brazil plays a key role in environmental conservation and in decreasing the levels of greenhouse gas emissions from deforestation worldwide. Recent modeling shows that a combination of rising temperatures, frequent droughts and fires caused by global warming could exacerbate forest degradation and could lead to a "tipping point", where the rainfall patterns in the Amazon are so disrupted that the rainforest collapses and is replaced over large areas by a mixture of savannah and semi-arid ecosystems. The implications of this massive ecosystem shift for biodiversity, global climate change, and human livelihoods would be profound.

¶19. Brazil is a key player in the ongoing negotiations for a new international climate change agreement to succeed the Kyoto

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Protocol. It has become an active participant in the Major Economies process. While a fierce defender of the principle of "common, but differentiated responsibilities," Brazil sees a need for an appropriate balancing of environmental and economic concerns when addressing the problem. Brazil recognizes the importance of reducing deforestation, but is fearful of accepting binding goals which might be used to justify trade sanctions or other punitive measures.

SOBEL